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RUEHBJ/AMEMBASSY BEIJING 1047
RUEHKO/AMEMBASSY TOKYO 1750
RUEHIT/AMCONSUL ISTANBUL 0150
RHEBAAA/DEPT OF ENERGY WASHDC
RUCPDO/DEPT OF COMMERCE WASHDC
RUEATRS/DEPT OF TREASURY WASHDC
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RHEFAAA/DIA WASHDC
RHEHNSC/NSC WASHDC 1232
RUEKJCS/SECDEF WASHDC 1148
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SUBJECT: KAZAKHSTAN: BUSINESS AS USUAL IN THE URANIUM MINING
SECTOR

REF: (A) ASTANA 0209
(B) ASTANA 0677
(C) ASTANA 0943

ASTANA 00001033 001.2 OF 003

11. (U) Sensitive but unclassified. Not for public Internet.

12. (SBU) SUMMARY: On June 10-11, Energy Officer met with senior managers from Kazakhstan's national nuclear energy company Kazatomprom (KAP) and KAP's foreign partners in Almaty to discuss the impact of the Prosecutor General's ongoing investigation of former KAP President Mukhtar Dzhakishiev. Although Kazatomprom and the Samruk-Kazyna National Welfare Fund, which owns 100 percent of KAP, gave public assurances that all previous contractual obligations and production plans will be met, KAP's foreign partners are anxiously awaiting official, written confirmation that prior transactions and existing contracts will be honored. Both Kazatomprom and its international joint venture partners seemed eager to return to business as usual, despite the arrest of Dzhakishiev and his top lieutenants. KAP confirmed Kazakhstan's interest in hosting an international nuclear fuel bank and said it submitted a technical proposal to the IAEA on June 9. END SUMMARY.

KAZATOMPROM SAYS IT WILL HONOR PREVIOUS COMMITMENTS

12. (SBU) On June 10, Energy Officer met with KAP Vice President Sergei Yashin, the highest-ranking official at Kazatomprom who was not investigated or indicted on corruption charges (reftel C). Yashin told Energy Officer that "representatives from all of our foreign partners have come to see us, to receive assurances that we will continue to work in accordance with previously announced plans." He said he told the foreign companies that all projects initiated under the leadership of Dzhakishiev would continue as planned. Yashin praised Dzhakishiev for his leadership role in KAP's 10-year success story and expressed hope that the investigation will be conducted fairly. Yashin also said that on June 11, newly-appointed KAP President Vladimir Shkolnik would present the company's strategic plan to Prime Minister Masimov, which he

expected to remain largely the same as it was under Dzhakishhev.

NUCLEAR POWER PLANT STILL A PRIORITY

13. (SBU) According to Yashin, the feasibility study for a new nuclear power plant in Aktau will be completed "in about two months," and submitted to the Ministry of Energy and Mineral Resources for approval. (NOTE: In January, Yashin told Energy Officer that the feasibility study would be completed in April, ref tel A. END NOTE.) Despite minor technical delays with the project, Yashin dismissed a June 3 statement by Kairat Kadyrzhanov, Director General of the National Nuclear Center, who argued that it would be inexpedient to build the nuclear power plant in Aktau, since the city is not connected to the national power grid. Kadyrzhanov proposed constructing a nuclear power plant near Lake Balkhash. Yashin said, "That's his private opinion. He can think whatever he wants."

IAEA NUCLEAR FUEL BANK PROPOSAL SUBMITTED

14. (SBU) Yashin confirmed Kazakhstan's interest in hosting an international nuclear fuel bank under the auspices of the International Atomic Energy Agency (IAEA) and said Kazatomprom submitted a technical proposal to the IAEA on June 9. Yashin also said that KAP is waiting for financing to start evacuating spent fuel from the decommissioned BN-350 plutonium breeder reactor in Aktau.

URANIUM ONE WANTS WRITTEN REASSURANCES

15. (SBU) Uranium One, a Canadian-based uranium producing company listed on the Toronto Stock Exchange, has a 70 percent interest in a joint venture with KAP that owns the Akdala Uranium Mine -- which is currently in operation -- and the South Inkai Uranium Project, which commenced pre-commercial production in 2007. Uranium One also has a

ASTANA 00001033 002.2 OF 003

30 percent interest in a joint venture with KAP that is developing the Kharasan Uranium Project. On June 10, Paul Lewis Clarke, Senior Vice President of Uranium One, told Energy Officer that he is concerned that the Prosecutor General's investigation of Dzhakishhev will call into question the legitimacy of the company's mining licenses at the Akdala, South Inkai, and Kharasan mines. These licenses were obtained from Kazatomprom by offshore companies that sold them to UrAsia Energy, which Uranium One acquired in 2007. Uranium One's share price has already fallen by more than 40 percent since the investigation began. "We want something more than a statement to the press," said Clarke. "That is simply chitchat. We need official confirmation, in writing, from Shkolnik or Samruk-Kazyna, that these licenses are still valid." Clarke, who warned Energy Officer that "our conversation is being monitored," noted that Uranium One's transactions were approved by many of the same people still in power, including Minister of Defense Daniel Akhmetov, who was then Prime Minister, and Kazatomprom president Shkolnik, then the Minister of Energy and Mineral Resources.

UNINTIMIDATED, URANIUM ONE ACQUIRES NEW URANIUM MINE

16. (U) On June 15, Uranium One announced that it agreed to acquire a 50 percent interest in Kazakhstan's Karatau Uranium Mine from JSC Atomredmetzoloto (ARMZ), a Russian state-owned mining company. The Canadian company said the purchase agreement gives ARMZ 117 million common shares of Uranium One and a cash payment of \$90 million. Jean Nortier, Uranium One's president and chief executive, said the purchase agreement with ARMZ was never at risk, despite the ongoing Dzhakishhev investigation. The transaction gives Uranium One exclusive rights to negotiate the purchase of ARMZ's 50 percent in the Akbastau uranium project, which is in pilot production and is adjacent to the Karatau uranium mine. "This gives us a chance to increase our economies of scale in Kazakhtan. The mines are close together, which makes it easier for us to manage our assets," Nortier said.

INKAI LESS AFFECTED, BUT NO LESS CONCERNED

17. (SBU) Aliya Kayupova, Corporate Development Director of the

Inkai joint venture between Canada's Cameco and KAP, tried to put a brave face on recent events. She told Energy Officer on June 10 that, "Kazatomprom is simply a minority shareholder of Inkai. Cameco is the majority shareholder with 60 percent, and our operations will not be affected by the change in leadership at Kazatomprom." Kayupova's statement echoed that of Cameco's President and CEO Jerry Grandey, who told shareholders on May 27 that Dzhakishev's arrest has not impacted the Inkai joint venture. "So far we have been left alone," he said, and the company is being told "it is business as usual." Grandey noted that it took Cameco five years to get leases and licenses for the Inkai joint venture, because the Canadian company proceeded "in a very careful way, unlike other foreign uranium companies who were licensed very quickly." Nevertheless, Kayupova, who previously worked in Kazakhstan's oil and gas sector for nine years, said the company was following the situation closely and likened it to Russia's treatment of international oil companies. "You saw how Shell and BP were pressured and pushed out of lucrative projects in Russia," she said. "I would not be surprised if Kazakhstan decides to question the validity of existing mining contracts, as it did quite successfully with the Kashagan contract," she said.

SULFURIC ACID SUPPLY NOT A PROBLEM

18. (SBU) KAP, Uranium One, and Inkai all reported that, unlike the situation one year ago, they now have no difficulty securing sufficient supplies of sulfuric acid for their uranium mining operations. Inkai's Kayupova said, "One year ago, we were literally fighting with other companies for each ton of sulfuric acid." Now, however, she said the situation is completely different. Kayupova said that Inkai conducted an open tender to supply sulfuric acid and had already received five bids before the closing date of June 11, whereas in 2008, the company was hard-pressed to find one or two

ASTANA 00001033 003.2 OF 003

reliable suppliers. With the surplus supply of sulfuric acid, Kayupova said that Inkai has put on hold an earlier plan to build its own sulfuric acid plant. Uranium One's Clarke, however, told Energy Officer that it is moving forward with plans to build a sulfuric acid plant together with KAP because, even though there are currently no issues with the sulfuric acid supply, future deliveries could be constrained by the lack of sufficient railcars. Clarke also said that Uranium One's stake in the joint venture would give it access to power generated by the sulfuric acid plant, which would help ensure a steady power supply to mining operations.

19. (SBU) COMMENT: As the Dzhakishev affair becomes more dramatic (Dzhakishev's wife was prevented from leaving the country this week to visit her parents in Kyrgyzstan), Kazatomprom and its foreign joint venture partners simply want to return to business as usual. Uranium One's decision to increase its investment in Kazakhstan -- despite suffering significant collateral damage as a result of the Dzhakishev investigation -- indicates that the company is taking a long-term, strategic view of its interests in Kazakhstan. Clearly, Uranium One believes that President Nazarbayev will be true to his words at the Foreign Investors Council on June 12: "Kazakhstan was and remains committed to the principle of a market economy, the protection of the rights of private ownership, and the sanctity of signed contracts." Uranium mining is a lucrative, strategic sector for Kazakhstan, and a steady source of revenue, technology, and expertise during the current recession. President Nazarbayev does not want to jeopardize that, which gives us reason to believe that the investigation into Dzhakishev's dealings will play out as an internal political affair and will not directly or adversely impact the overall foreign investment climate. END COMMENT.

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